

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF GRAYSON COUNTY )  
WATER DISTRICT FOR A GENERAL RATE )  
ADJUSTMENT, TO INCREASE NON- )  
RECURRING CHARGES, TO INCREASE )  
FEES, AND TO REVISE ITS TARIFF )  
PURSUANT TO THE PROVISIONS OF KRS )  
278.030, 278.0152, 807 KAR 5:001 AND )  
807 KAR 5:011 )

CASE NO.  
2004-00511

ORDER

On March 14, 2005, Grayson County Water District ("Grayson") filed its application for Commission approval of proposed water rates, non-recurring charges and complete tariff revision. Commission Staff, having performed a limited financial review of Grayson's test-year operations, has prepared the attached Staff Report containing Staff's findings and recommendations regarding Grayson's proposals. All parties should review the report carefully and provide any written comments or requests for hearing or informal conference no later than 10 days from the date of this Order.

IT IS THEREFORE ORDERED that all parties shall have no more than 10 days from the date of this Order to provide written comments regarding the attached Staff Report or requests for hearing or informal conference. If no request for a hearing or informal conference is received, this case will be submitted to the Commission for a decision.

Done at Frankfort, Kentucky, this 15<sup>th</sup> day of July, 2005.

ATTEST:

By the Commission

  
Executive Director

STAFF REPORT  
ON  
GRAYSON COUNTY WATER DISTRICT  
CASE NO. 2004-00511

On March 14, 2005, Grayson County Water District ("Grayson") filed an application with the Kentucky Public Service Commission ("Commission") seeking approval to revise certain language in its current tariff, increase its general rates for water service, and increase or create certain non-recurring charges. Grayson's application included a completely revised tariff.

To review Grayson's application Commission Staff ("Staff") performed a limited financial review of Grayson's test year operations, the calendar year ended December 31, 2003. The scope of Staff's review was limited to obtaining information as to whether the test year operating revenues and expenses were representative of normal operations. Insignificant or immaterial discrepancies were not pursued and are not addressed herein. This report summarizes Staff's findings and recommendations.

Jessamyn Thompson, Jason Green, and Scott Lawless of Staff performed the review. Ms. Thompson and Mr. Green reviewed Grayson's proposed tariff revisions, cost of service study and resulting rate design, test year operating revenues, and non-recurring charges. Mr. Lawless reviewed Grayson's proposed revenue requirement calculation.

The tariff language changes proposed by Grayson are consistent with Commission practice and in accordance with Kentucky law and regulation with one exception. The section labeled "AF. Water Main Extensions" in Grayson's proposed

tariff at Exhibit 25 of its Application is unnecessarily complex and contains an error in reference to 807 KAR 5:066.

Grayson's current tariff simply states that main extension refunds, other than to developers, will be made in accordance with 807 KAR 5:066 Section 11 (2) (b) 2 and should remain in effect as the main extension policy in the proposed tariff.

Staff recommends that all tariff revisions proposed by Grayson be accepted by the Commission except for those related to main extension as discussed above.

Grayson proposed the following changes to its non-recurring charges.

	Current	Proposed
Service Line Inspection	\$ 25.00	\$ 75.00
Returned Check Charge	N/A	25.00
Reconnection	5.00	50.00
Reconnection (After Hours)	35.00	125.00
Service Call	5.00	25.00
Service Call (After Hours)	35.00	100.00
Connection - Turn On	5.00	25.00
Connection - Turn On (After Hours)	35.00	100.00
Meter Reread	7.50	25.00
Meter Reread (After Hours)	15.00	100.00
Damage to Meter Setting or Lid	25.00	Actual Cost
Meter Test	N/A	50.00
Meter Relocation	N/A	Actual Cost
Field Collection	N/A	25.00
Late Payment Penalty	N/A	10%
Tap Fees: by Connection Size		
5/8"	450.00	550.00
3/4"	450.00	Actual Cost
1"	550.00	Actual Cost
1 1/2"	1,150.00	Actual Cost
2"	1,300.00	Actual Cost
3"	4,000.00	Actual Cost
4"	4,600.00	Actual Cost
6"	Actual Cost	Actual Cost

Staff has reviewed the cost justification for each of the proposed non-recurring charges listed above, agrees that the amounts are appropriate, and recommends that they be approved by the Commission.

Grayson proposed to increase rates for water service that would produce annual operating revenues of \$2,312,373, an additional \$290,135 or 14.35 percent over normalized annual revenues at current rates of \$2,022,238. Grayson's revenue requirement was based on its proposed pro forma operating statement as shown in this report at Attachment A. Grayson completed a cost of service study to determine the appropriate rate design to generate the requested revenues. The rates resulting from Grayson's cost of service study would increase the monthly bill of a residential customer using 5,000 gallons by \$4.67 (Cost at proposed rates \$37.56 - Cost at present rates \$32.89) or 14.2 percent.

Staff determined Grayson's pro forma operating statement to be as shown at Attachment B of this report. Attachment B also includes explanation of Staff's and Grayson's pro forma adjustments to test year operations.

Attachment C of this report contains a comparison of Grayson's and Staff's revenue requirement calculation. As shown there, Staff determined Grayson could have justified additional annual revenues of \$579,849 or \$289,713 more than Grayson requested. However, Staff recommends that Grayson's requested revenue increase of \$290,135 be approved by the Commission as it will produce revenues sufficient to pay all pro forma cash expenses as delineated in Attachment B.

If Grayson chooses to amend its application to reflect rates that will generate the annual revenue from rates found reasonable by Staff of \$2,602,087, it should do so when filing comments to this report. In the event that Grayson does request rates that generate revenue in addition to those previously noticed to its customers, it should be required to renotify its customer of the revised rates.

Staff determined the appropriate rates to generate Staff's recommended revenue requirement using the cost of service study contained in this report at Attachment D. Even though Staff recommends that Grayson's requested level of revenue be approved, the rates proposed by Staff are slightly different from those requested by Grayson as a result of Staff's calculation of pro forma operations and revenue requirement. The rates recommended by Staff are shown in Attachment D at Sheets 6 and 7 and will produce operating revenues of \$2,312,373. The proposed rates will result in a monthly bill of \$36.48 for a residential customer using 5,000 gallons, an increase of \$3.59 or 10.92 percent.

Signatures

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Prepared by: Jack Scott Lawless, CPA  
Financial Analyst, Water and Sewer  
Revenue Requirements Branch  
Division of Financial Analysis

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Prepared by: Jason Green  
Rate Analyst, Communications, Water,  
and Sewer Rate Design Branch  
Division of Financial Analysis

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Prepared by: Jessamyn Thompson  
Rate Analyst, Communications, Water,  
and Sewer Rate Design Branch  
Division of Financial Analysis

ATTACHMENT A  
 STAFF REPORT CASE NO. 2004-00511  
 GRAYSON'S REQUESTED PRO FORMA OPERATING STATMENT

	Test Year	Adjustments	Pro forma
Operating Revenue			
Water Sales	\$ 2,026,610	\$ (88,971)	
		84,599	\$ 2,022,238
Other Operating Revenue	48,518		48,518
	<hr/>		
Total Operating Revenue	2,075,128	(4,372)	2,070,756
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Operating Expenses			
Operation and Maintenance			
Purchased Water	199,999	17,527	217,526
Purchased Power	58,431	2,314	60,745
Materials and Supplies	122,132		122,132
Contractual Services - Other	761,009		761,009
Transportation Expnses	29,961		29,961
Insurance Other	25,844		25,844
Miscellaneous	35,673		35,673
PSC Fee	3,560		3,560
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Total Operation and Maintenance	1,236,609	19,841	1,256,450
Depreciation	463,989		463,989
Taxes Other Than Income	3,571		3,571
	<hr/>		
Total Operating Expenses	1,704,169	19,841	1,724,010
	<hr/>		
Net Operating Income	370,959	(24,213)	346,746
Interest Income	28,935		28,935
	<hr/>		
Income Available to Service Debt	\$ 399,894	\$ (24,213)	\$ 375,681
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ATTACHMENT B  
STAFF REPORT CASE NO. 2004-00511  
GRAYSON'S ADJUSTED OPERATING STATEMENT PER STAFF

	Test Year			Pro forma
	Per Application Exhibit 9	Adjustments	Ref.	
Operating Revenue				
Water Sales	\$ 2,026,610	\$ (88,971)	(A)	
		84,599	(B)	\$ 2,022,238
Other Operating Revenue	48,518			48,518
<b>Total Operating Revenue</b>	<b>2,075,128</b>	<b>(4,372)</b>		<b>2,070,756</b>
Operating Expenses				
Operation and Maintenance				
Purchased Water	199,999	17,527	(B)	217,526
Purchased Power	58,431	2,314	(B)	60,745
Materials and Supplies	122,132			122,132
Contractual Services - Other	761,009			761,009
Transportation Expenses	29,961			29,961
Insurance Other	25,844			25,844
Miscellaneous	35,673	(7,697)	(C)	27,976
PSC Fee	3,560			3,560
Total Operation and Maintenance	1,236,609	12,144		1,248,753
Depreciation	463,989			463,989
Taxes Other Than Income	3,571	(3,571)	(D)	-
<b>Total Operating Expenses</b>	<b>1,704,169</b>	<b>8,573</b>		<b>1,712,742</b>
Net Operating Income	370,959	(12,945)		358,014
Interest Income	28,935			28,935
<b>Income Available to Service Debt</b>	<b>\$ 399,894</b>	<b>\$ (12,945)</b>		<b>\$ 386,949</b>

(A) Water Sales. Grayson reported test year water sales of \$2,026,610. Grayson proposed to reduce the test year amount by \$88,971 so that pro forma water sales would represent the level of revenue determined in Grayson's billing analysis. Staff has reviewed Grayson's billing analysis, finds that it is appropriate, and recommends that test year water sales be decreased by \$88,971.

(B) Water Sales, Purchased Water and Purchased Power. Grayson proposed to increase these accounts by \$84,599, \$17,527, and \$2,314, respectively, to account for

anticipated customer growth subsequent to the test year. Staff has reviewed Grayson’s proposed customer growth adjustments, agrees with them in all material respects, and recommends that they be accepted by the Commission.

(C) Miscellaneous. Staff identified the following test year expenditures recorded in account 675 – Miscellaneous Expenses that should have been recorded below the line in account 426 – Miscellaneous Nonutility Expenses. Staff has eliminated each item for determining pro forma operations.

Date Pd.	Check Number	Vendor	Amount
2/18/2003	4210	Caneyville Flowers	\$ (29)
5/11/2003	4485	Morris	(1,189)
5/16/2003	4513	Louisville Stoneware	(437)
5/22/2003	4532	Winn Dixie	(238)
6/9/2003	4567	Grayson County Chamber of Commerce	(400)
6/13/2003	4598	Kentucky Tent Rental	(440)
7/7/2003	4670	Moonlite BBQ	(1,650)
7/8/2003	4691	Winn Dixie	(174)
8/27/2003	4804	Caneyville Flowers	(26)
11/24/2003	5069	Back Home Catering	(2,040)
11/24/2003	5078	Special Celebrations	(150)
12/11/2003	5146	Pam Willis	(300)
12/11/2003	5153	Tonya Sapp	(300)
12/11/2003	5155	Winn Dixie	(95)
12/29/2003	5179	Caneyville Flowers	(28)
12/29/2003	5186	Special Celebrations	(200)
Total			<u>\$ (7,697)</u>

(D) Taxes Other Than Income. By reconciling the test year expense accounts as stated in Grayson’s application to those reported in Grayson’s general ledger, Staff determined that the annual PSC assessment was included twice in the application’s statement of test year expenses. Staff eliminated one assessment when determining pro forma operations.

ATTACHMENT C  
 STAFF REPORT CASE NO. 2004-00511  
 COMPARISON OF REVENUE REQUIREMENTS AS  
 DETERMINED BY GRAYSON AND STAFF

	Grayson Application	Staff Report	Difference
Operating Expenses	\$ 1,724,010	\$ 1,712,742	\$ (11,268)
Debt Principal and Interest Subject to Coverage	554,847	793,366	238,519
Debt Coverage	110,969	158,673	47,704
Other Debt Principal and Interest		14,758	14,758
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Total Revenue Requirement	2,389,826	2,679,540	289,713
Less: Other Operating Revenue	(48,518)	(48,518)	-
Interest Income	(28,935)	(28,935)	-
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Total Revenue Required from Rates	2,312,373	2,602,087	289,713
Less: Revenue from Current Rates	(2,022,238)	(2,022,238)	-
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Required Revenue Increase	\$ 290,135	\$ 579,849	\$ 289,713

Operating Expenses. The difference in operating expenses is discussed in detail at Attachment B.

Debt Principal and Interest Subject to Coverage. To issue parity bonds Grayson's current bond resolutions require that Grayson maintain net revenues equal to at least 120 percent of annual principal and interest payments of all outstanding bonds. The principal and interest payments on these outstanding bonds as stated by Grayson in its application were based upon the 2003 audit report issued by Watkins, Buckles, Travis & Sloan, CPA's as included in the application at Exhibit 6. Since the filing of Grayson's application an error in the audit report was discovered understating Grayson's annual principal and interest payments. The audit report has since been amended. The amount included by Staff above reflects the correct amount.

Debt Coverage. As stated above Grayson's revenue requirement should include a 20 percent coverage on all outstanding bond and interest payments. The coverage amounts requested by Grayson and calculated by Staff differ due to the error in pro forma principal and interest payments as noted above.

Other Debt Principal and Interest. On April 5, 2005, subsequent to Grayson's application file date of March 14, 2005, Grayson secured a five-year, 4.1 percent rate of interest note payable to Leitchfield Deposit Bank and Trust Company in the amount of \$66,610 for the purchase of a backhoe and trailer. Grayson's monthly note payment is \$1,230 or \$14,758 annually.

Kentucky Revised Statute 278.300 requires that any note with a life of more two years requires this Commission's prior approval. During Staff's review it found no evidence that Grayson obtained such approval for this five-year note. The Commission may, upon its own motion, open a show cause proceeding to investigate this matter. Nevertheless, Staff has included the annual payment in the calculation of Grayson's revenue requirement as it is Staff's opinion that Grayson's actions were not a malicious attempt to circumvent the Commission's authority. Staff believes that Grayson was simply unaware that the Statute referenced above applied to a five-year note.

ATTACHMENT D  
STAFF REPORT CASE NO. 2004-00511  
STAFF'S COST OF SERVICE STUDY

						Sheet 1
COST OF SERVICE STUDY						
		1,500	8,500	40,000	100,000	150,000
Actual Sales	272,879,000	86,295,820	143,826,649	20,682,261	9,653,630	12,420,640
Percentage		0.3162	0.5271	0.0758	0.0354	0.0455
Weighted For Demand	455,674,440	172,591,640	230,122,638.40	28,955,165.40	11,584,356	12,420,640
Percentage		0.3788	0.5050	0.0635	0.0254	0.0273
Commodity Costs	323,563	102,324	170,540	24,524	11,447	14,728
Demand Costs	1,567,765	593,808	791,746	99,621	39,856	42,734
Subtotal	1,891,328	696,132	962,286	124,145	51,303	57,461
Water Costs		8.07	6.69	6.00	5.31	4.63
Customer Costs	347,999					
Bills	70,910	4.91				
<b>Total Rate</b>		<b>12.98</b>	<b>\$ 6.69</b>	<b>\$ 6.00</b>	<b>\$ 5.31</b>	<b>\$ 4.63</b>
Current Rates		12.87	5.72	4.73	3.96	3.19
Increase per 1,000		0.11	0.97	1.27	1.35	1.44
Percentage		0.01	0.17	0.27	0.34	0.45
<b>Staff Proposed Rates</b>		<b>\$13.06</b>	<b>6.69</b>	<b>6.00</b>	<b>5.31</b>	<b>4.63</b>
Increase per 1,000		0.19	0.97	1.27	1.35	1.44
Percentage		0.01	0.17	0.27	0.34	0.45

## ALLOCATION OF DEPRECIATION

		Commodity	Demand	Customer
Structures and Improvements	627		627	
Pumping Equipment	7,220		7,220	
Water Treatment	87,435		87,435	
Distribution	18,982		18,982	
Transmission & Dist. Mains	287,857		287,857	
Services	14,888			14,888
Meters and Installations	33,234			33,234
Hydrants	1,402			1,402
Other Plant	6,175		6,175	
Subtotal	457,820	-	408,296	49,524
Percentage			0.8918	0.1082
Office Furniture	621		554	67
Transportation	3,667		3,270	397
Tools, Shop and Garage	822		733	89
Communication	163		145	18
Miscellaneous	886		790	96
Total	921,799	-	822,086	99,714
Percentage			0.8918	0.1082

ALLOCATION OF PLANT VALUE				
		Commodity	Demand	Customer
Land and Land Rights	148,236		148,236	
Structures and Improvements	30,403		30,403	
Pumping and Equipment	349,872		349,872	
Treatment Equipment	4,237,166		4,237,166	
Distribution Res. & Standpipes	919,868		919,868	
Trans. & Dist. Mains	13,949,831		13,949,831	
Services	721,475			721,475
Meters and Installations	1,610,529			1,610,529
Hydrants	67,955			67,955
Subtotal	22,035,335	-	19,635,376	2,399,959
Percentage			0.8911	0.1089
Other Plant	299,255		266,662	32,593
Office Furn and Equip.	30,083		26,807	3,276
Transportation Equipment	178,193		158,785	19,408
Tools, Shop and Garage	39,851		35,511	4,340
Communication	7,961		7,094	867
Miscellaneous	42,941		38,264	4,677
Total	22,633,619		20,168,498	2,465,121
Percentage			0.8911	0.1089

## ALLOCATION OF EXPENSES

		Commodity	Demand	Customer
Supply and Pumping Expense				
Purchased Water	\$ 217,526	\$ 217,526		
Purchased Power	12,823	12,823		
Materials and Supplies	13,070		13,070	
Insurance	5,873		5,873	
Transportation	2,151		2,151	
Miscellaneous	725		725	
Contractual Services	33,228		33,228	
Water Treatment Expense				
Purchased Power	47,922	47,922		
Materials and Supplies	56,979	56,979		
Insurance	5,873		5,873	
Transportation	880		880	
Miscellaneous	1,390		1,390	
Contractual Services	115,024		115,024	
Professional Services	18,608		18,608	
Distribution Expense				
Materials and Supplies	25,943		25,943	
Insurance	5,873		5,873	
Transportation	13,572		13,572	
Miscellaneous	3,363		3,363	
Contractual Services	150,916		150,916	
Professional Services	970		970	
Maintenance Expense				
Contractual Services	94,966		94,966	
Distribution	1,355		1,355	
Services	17,275		17,275	
Meters and Hydrants	1,675			1,675
Customer Accounts Expense				
Materials and Supplies	14,203			14,203
Transportation	11,671			11,671
Miscellaneous	1,721			1,721
Contractual Services	113,959			113,959
Customer Records	62,895			62,895
Subtotal	1,052,429	335,250	511,055	206,124
Percentage less commodity			0.7126	0.2874

## ALLOCATION OF EXPENSES

Administrative and General Expense				
Materials and Supplies	11,937		8,506	3,431
Insurance	8,225		5,861	2,364
Transportation	1,687		1,202	485
Miscellaneous	20,777		14,805	5,972
Contractual Services	138,571		98,744	39,827
PSC Assessment	3,560		2,537	1,023
Professional Services	11,567		8,243	3,324
Taxes other than Income	-		-	-
Depreciation Expense	174,276		155,384	18,892
Debt Expense				
Principal and Interest Sinking Fund				
Requirements	793,366		706,968	86,398
Other Debt Principal and Interest	14,758		13,151	1,607
Debt Coverage : .20	158,673		141,394	17,280
Total Revenue Requirement	\$ 2,389,826	\$ 335,250	\$ 1,667,851	\$ 386,725
Less Other Revenue	(77,453)		(38,727)	(38,727)
Less Wholesale	(73,047)	(11,687)	(61,359)	
Revenue Required from Rates	\$ 2,239,326	\$ 323,563	\$ 1,567,765	\$ 347,999

Proposed Water Rates

5/8" Meter

First	1,500	gallons	\$13.06	Minimum Bill
Next	8,500	gallons	6.69	per 1,000 gallons
Next	40,000	gallons	6.00	per 1,000 gallons
Next	100,000	gallons	5.31	per 1,000 gallons
Over	150,000	gallons	4.63	per 1,000 gallons

3/4" Meter

First	3,000	gallons	\$23.10	Minimum Bill
Next	7,000	gallons	6.69	per 1,000 gallons
Next	40,000	gallons	6.00	per 1,000 gallons
Next	100,000	gallons	5.31	per 1,000 gallons
Over	150,000	gallons	4.63	per 1,000 gallons

1" Meter

First	5,000	gallons	\$36.48	Minimum Bill
Next	5,000	gallons	6.69	per 1,000 gallons
Next	40,000	gallons	6.00	per 1,000 gallons
Next	100,000	gallons	5.31	per 1,000 gallons
Over	150,000	gallons	4.63	per 1,000 gallons

1 1/2" Meter

First	10,000	gallons	\$69.93	Minimum Bill
Next	40,000	gallons	6.00	per 1,000 gallons
Next	100,000	gallons	5.31	per 1,000 gallons
Over	150,000	gallons	4.63	per 1,000 gallon

2" Meter

First	16,000	gallons	\$105.93	Minimum Bill
Next	34,000	gallons	6.00	per 1,000 gallons
Next	100,000	gallons	5.31	per 1,000 gallons
Over	150,000	gallons	4.63	per 1,000 gallons

3" Meter

First	30,000	gallons	\$189.93	Minimum Bill
Next	20,000	gallons	6.00	per 1,000 gallons
Next	100,000	gallons	5.31	per 1,000 gallons
Over	150,000	gallons	4.63	per 1,000 gallons

Proposed Water Rates

4" Meter

First	50,000	gallons	\$309.93 Minimum Bill
Next	100,000	gallons	5.31 per 1,000 gallons
Over	150,000	gallons	4.63 per 1,000 gallons

6" Meter

First	100,000	gallons	\$575.43 Minimum Bill
Next	50,000	gallons	5.31 per 1,000 gallons
Over	150,000	gallons	4.63 per 1,000 gallons